

## Mexico

## Mexico Economy Slows in Third Quarter

December 23, 2014

Mexico's gross domestic product (GDP) expanded at an annualized rate of 2 percent in the third quarter, a deceleration from a revised 3.6 percent rate in the second quarter. Recent data are consistent with continued, albeit slower, growth. Industrial production, employment and exports grew in October, although retail sales fell in September. Inflation ticked down, while uncertainty generated by falling oil prices pushed the peso-dollar exchange rate to levels not seen since mid-2012. The peso lost ground against the dollar for the fourth consecutive month in December.

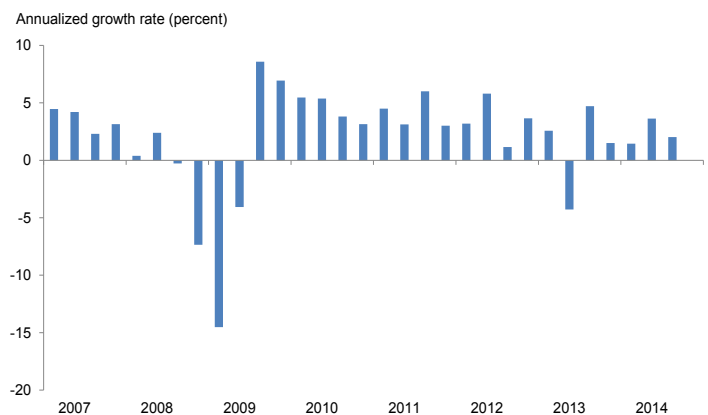
## Output Growth Decelerates

Mexico's economy expanded 2 percent in the third quarter on a quarter-over-quarter basis (*Chart 1*). Service-related activities (including trade, transportation and business services) grew 2 percent, while goods-producing industries (including manufacturing, construction, utilities and mining) grew 1.7 percent. Agricultural output expanded 10.5 percent in the quarter. The consensus GDP growth forecast for 2014 was revised down from 2.3 percent in October to 2.2 percent in November. The GDP growth forecast for 2015 is 3.5 percent.

## Exports Rise Despite Decline in Oil Trade

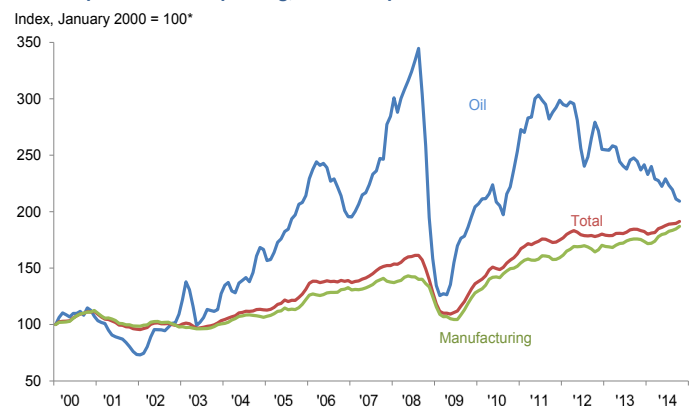
Exports grew 3.8 percent in October after falling 0.4 percent in September. Three-month moving averages reveal a steep, persistent decline in oil exports, while total exports continue to show improvement since the beginning of the year (*Chart 2*). Year to date, total exports have grown 3.8 percent, with manufacturing exports growing 5.1 percent. Oil exports declined 11 percent during the first 10 months of 2014 due to falling oil prices and declines in domestic production. Mexico oil production is down 33 percent since peaking at 3.53 million barrels per day in October 2004.

**Chart 1**  
Gross Domestic Product Growth Decelerates



SOURCE: Instituto Nacional de Estadística y Geografía.

**Chart 2**  
Total Export Growth Improving, but Oil Exports Fall Further



\*Seasonally adjusted, three-month moving average; real dollars.

SOURCE: Instituto Nacional de Estadística y Geografía.

## Industrial Production Showing Improvement

Mexico's industrial production (IP) grew 0.3 percent month over month in October after coming in flat in September. Three-month moving averages show a broad pickup in total IP, which includes construction, oil and gas extraction, and utilities. Both construction IP and manufacturing IP continued to grow, with manufacturing outpacing total production (*Chart 3*). Meanwhile, U.S. IP grew 1.3 percent in November after staying flat

in October. Mexico's industrial production typically tracks U.S. IP, due in part to the U.S. automotive industry's large presence in Mexico.

### Retail Sales Tick Down in September

Retail sales fell 0.7 percent in September after growing for three consecutive months over the summer. The three-month moving average, however, still shows improvement since the second quarter (*Chart 4*). Year over year, retail sales are up 4.3 percent. Consumer confidence improved in November.

### Job Growth Moderates in November

Formal-sector employment—jobs with government benefits and pensions—grew at an annualized rate of 3.9 percent in November, slower than the 2014 annual average growth of 4.2 percent but faster than the 2013 annual growth of 2.9 percent (*Chart 5*).

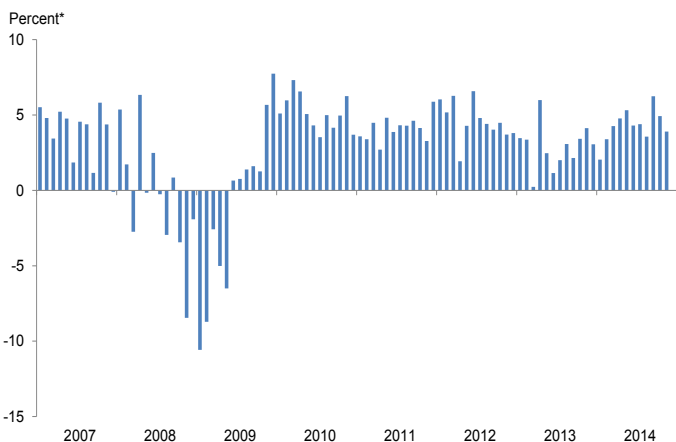
### Peso Continues Depreciating

The peso fell 4.4 percent against the U.S. dollar during the first 15 days of December, when the exchange rate averaged 14.4 pesos per dollar, up from 13.6 pesos per dollar in November (*Chart 6*). The peso has been unstable as a result of falling oil prices and its potential adverse effects on Mexico government finances. Oil revenues account for about one-third of the federal government budget.

### Inflation Falls

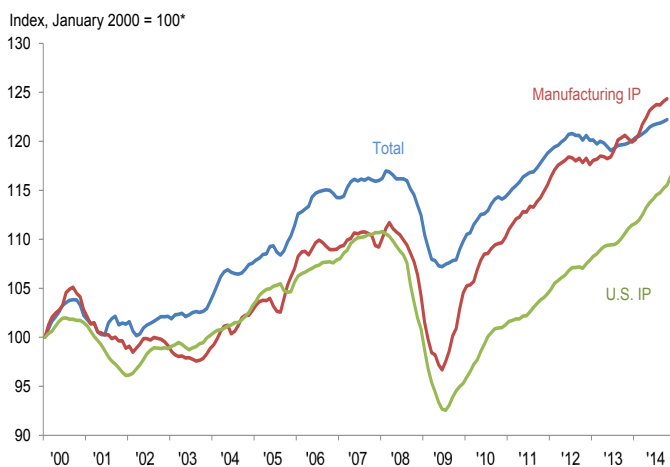
Inflation ticked down to 4.2 percent year over year in November (*Chart 7*). Prices excluding food and energy rose 3.4 percent, slightly above the central bank's long-term inflation target of 3 percent. Banco de México has made no further moves since it lowered

**Chart 5**  
Job Growth Slows in November



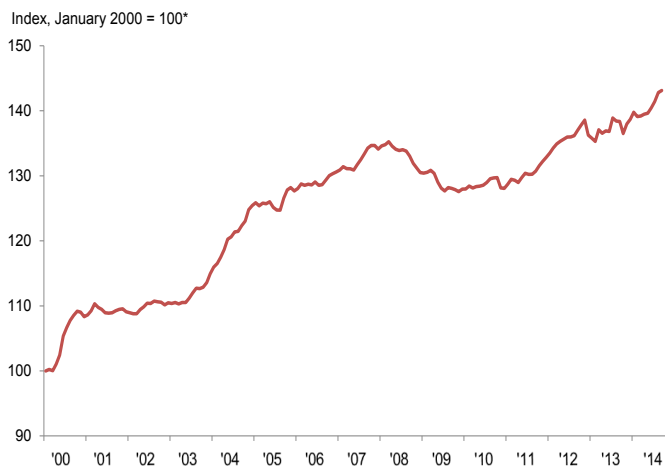
\*Month/month; seasonally adjusted, annualized rate.  
SOURCE: Instituto Mexicano del Seguro Social.

**Chart 3**  
Industrial Production Keeps Growing



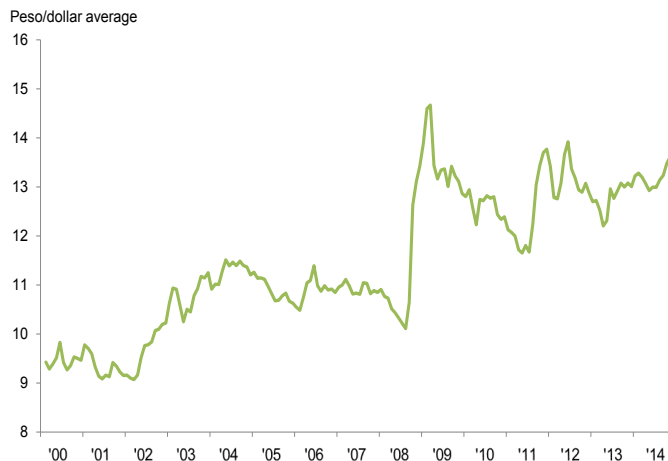
\*Seasonally adjusted, three-month moving average.  
SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board.

**Chart 4**  
Retail Sales on Rise Since Second Quarter 2014



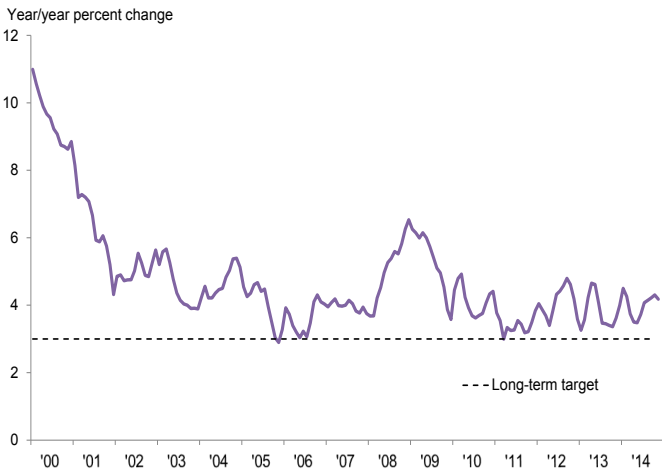
\*Seasonally adjusted, three-month moving average; real pesos.  
SOURCE: Instituto Nacional de Estadística y Geografía.

**Chart 6**  
Peso Depreciates Further Against Dollar



SOURCE: Banco de México.

**Chart 7**  
**Inflation Ticks Down in November**



SOURCE: Instituto Nacional de Estadística y Geografía.

the reference rate 50 basis points to 3 percent in June to help stimulate economic growth. Policymakers continue to believe that inflation expectations are well-anchored. However, central bank policymakers have noted that they may raise interest rates if the peso’s weakness pushes up inflation.

—Jesus Cañas

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**About the Author**

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